The Meaning of Economic Security

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What does economic security mean? The concept is not nebulous, but it is hardly as precise as the Pythagorean Theorem. To achieve economic security, people must be able to pay *and* avoid paying. They need to able to pay routine costs. They also need to have protections in place that spare them from being crushed by gigantic costs. These concepts provide a framework, and it is possible to achieve greater specificity.

Despite the term's imprecision, it is fair to say that economic security has three basic dimensions. It means: (1) for all adults, an adequate and steady income every month; (2) for most adults, stable employment until retirement at an older age; and (3) for everyone, effective mechanisms for society's sharing the extraordinary cost of health insurance and children's education.

Enough Money: First and most obviously, economic security means enough money each month to maintain a decent living standard. It entails a stream of earnings or other income that is big enough, and stable enough, to pay the typical monthly or other periodic bills incurred in living a comfortable life. To be secure, one must take in enough money on a regular basis to be able to pay the rent or pay down the mortgage, buy enough groceries, take care of utility bills, remain comfortably clothed, put gas in the tank, and so on.

Most of us hit bumps in the road during our working years however, and almost all of us live beyond our working years. Economic security therefore also means a stream of income that is sufficiently large and dependable to set aside a growing amount of savings. We need savings during our working years to help tide us over during spells of unemployment. We also need savings (regardless of age) to defray the occasional, large, but not catastrophic expenses we all inevitably face: a new refrigerator, a new car, etc. Finally, we need savings to cushion our retirement. The amount needed rises sharply the longer we live.

Stable Employment: Second, economic security requires stability in employment. Most adults work. For most adults, stable work contributes not only to a positive identity and better health, but it is also the primary source of an adequate income. While a certain degree of fluctuation in earnings can be tolerable, the dips in earning cannot be too large or frequent. Income must also be capable (in concert with savings) to counterbalance the spikes in spending that many families face as a result of "ordinary" large, one-time expenses.

Protection Against Extraordinary Costs*:* Third, finally, economic security means protection against "extraordinary," occasional, unexpected economic costs. Even with an adequate stream of income to meet routine costs and set aside sufficient savings, most

Americans will never earn or save enough to be able to pay for two unique, gigantic costs: health insurance and education.

If you get sick or have an accident, health care can cost thousands of dollars. A serious illness or accident can run up the medical, hospital, and drug bills to tens of thousands, hundreds of thousands, or millions of dollars. Health insurance "solves" the problem by spreading the risk over the lives of everyone who is insured. But the cost of the health insurance "solution" can itself be crushing for a lower-income or middle-income family. According to the Kaiser Family Foundation, "In 2017, the average annual premiums for employer-sponsored health insurance are $6,690 for single coverage and $18,764 for family coverage."[1]

Even if the policies to guarantee almost all Americans a minimally adequate income were in place (as described in the two prior chapters), few individuals or families in the U.S. can afford to shell out nearly $7,000 per person or $19,000 per family to buy health insurance every year if they do not have employer-sponsored coverage. Those already employed by insuring employers would of course not always bear the entirety of these amounts as *extra* costs should their employers cancel coverage. Typically, workers already pick up a piece of their employers' insurance costs. In addition, their earnings might rise if their employers ended coverage. But after all the factors are netted out, a wide swath of US lower-income and middle-income families would take a huge hit if the only way they could obtain health insurance was to pay out-of-pocket, year after year, for coverage whose average cost is $7,000/person or $19,000/family (or anything close to such figures).

Education for many families would result in an even bigger hit. Parents are legally required to educate their younger children. Usually, parents enroll their children in a public school. The average cost of educating a child in a public school costs over $10,000 per year.[2] Few American parents can afford to pay $10,000 for each child, for 15 years or more, to educate their children.

To understand the problem better, let's look at a typical American family with young children. In 2016, the median household income for families headed by an adult 25-44 years of age—that is: a "prime" example of a household with younger children—was $62,815.[3,4] Let's assume that we're talking about a household composed of two parents in

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[1] Gary Claxton, Matthew Rae, Michelle Long, Anthony Damico, Gregory Foster, and Heidi Whitmore, Kaiser Family Foundation, "Employer Health Benefits: 2017 Annual

[2] Center for Education Reform, "Average Per Pupil Expenditure," K-12 Facts, updated as of February 2016, https://www.edreform.com/2012/04/k-12-facts/#expenditures

[3] Gloria Guzman, U.S. Census Bureau, "Household Income: 2016," *American Community Survey Briefs*, ACSBR/16-02, September 2017, Table 3, p. 6, https://www.census.gov/content/dam/Census/library/publications/2017/acs/acsbr16-02.pdf

[4] For the entire country, the median household income was $57,617, because younger adults and seniors have sharply lower incomes. See Guzman, "Household Income: 2016."

the 25-44 age range, plus two school-age children, whose income has climbed to a 2017 estimated median level of $64,000. This typical middle-class American family would have left only $25,000 *before taxes* to meet all of its basic needs if the parents were obliged to pay out-of-pocket for family health insurance coverage costing $19,000 and K12 schooling costing a total of $20,000 (2 children x $10,000 per child). Such a typical family would have barely $20,000 *after payroll taxes* to meet its basic needs if obliged to pay out-of-pocket for a combined $39,000 for health insurance and K12 schools.

In short, for a large segment of the nation's lower-income and middle-income households, the out-of-pocket cost of paying for decent health insurance *plus* decent K12 education would be crushing. Economic security for American population as a whole requires that the extraordinary, gigantic costs of health insurance and education be shared by society as a whole.

First Dimension: Enough Money

The first dimension of economic security is enough money to live on, over the course of every year, to maintain a decent living standard. The poverty line (whether the original, official definition developed by Molly Orshansky in the 1960s, or the latter-day Supplemental Poverty Measure) is a useful tool in measuring what it seeks to measure: annual poverty.[5] But both experts and the American public recognize that the poverty line, however defined, is at best the border between penury and the start of the long climb that ultimately leads to true economic security. Experts like to call the poverty line a threshold, but it stands at a great distance from the door that opens onto economic security itself.

How much money, then, is enough for Americans in the 21st century to be economically secure? The Gallup organization has periodically asked Americans this question (or one like it): "What is the smallest amount of money a family of four needs to make each year to get by in your community?" In 2013, the official poverty line for a family of four stood at $23,550.[6] Yet that year Gallup found Americans named a much higher amount as the least a four-person family needed to "get by". The lowest-income group that Gallup surveyed (with incomes under $30,000 annually) said that a four-person family needed $43,600 per year—185% higher than the poverty line—to "get by." The median income needed to "get by" selected by the full sample of surveyed Americans was $50,000 per

[5] See Census Bureau, *The Official History of the Poverty Measure,* https://www.census.gov/topics/income-poverty/poverty/about/history-of-the-poverty-measure.html, and *Supplemental Poverty Measure*, https://www.census.gov/topics/income-poverty/supplemental-poverty-measure.html
[6] U.S. Department of Health and Human Services, *2013 Poverty Guidelines,* 12/01/2013, https://aspe.hhs.gov/2013-poverty-guidelines

year, or 212% higher than the poverty line. The mean income that Gallup's interviewees said they needed to "get by" was $58,000, 246% higher than the poverty line.[7]

Second Dimension: Stability of Employment

The second dimension of economic security is stability in employment. Most American adults work. The vast majority of children, and many non-working adults, live with adults who hold jobs. Economic security requires that employees not only earn enough money in a given month, but do so throughout the year, *and* year after year, *and* decade after decade.

Most costs—and especially the biggest costs--do not greatly fluctuate. The same rent or mortgage payment usually comes due each month. Other basic costs, while fluctuating within a range, are predictable. Families need to put food on the table every week; pay the electric bill every month; and put gas in the car and pay for auto insurance at regular intervals. Fortunately, while the cost of each of these expenses is not fixed, the variation is often limited and foreseeable.

Other costs, however, are unpredictable, volatile, and potentially expensive. The roof starts to leak. A tire blows one month, the transmission dies the next month. As Jonathan Morduch and Rachel Schneider have shown, many worker-headed families face frequent but unexpected spikes in monthly expenses (not even counting catastrophic events).[8]

To *both* meet the fairly stable costs of living *and* set aside enough to pay for unpredictable spikes in non-catastrophic spending, working individuals need to count on stable employment, an adequate monthly income, and the ability to set aside savings to deal with "rainy days" as well as prepare for retirement.

Today, the volatility of work—i.e., irregular hours and fluctuating earnings—is perhaps the greatest cause of employment instability. Layoffs and firings also remains a significant cause of job instability. Yet regardless of the many ways in which the U.S. labor market is shape-shifting, the vast majority of American adults continue to need up to 40 hours of work per week to earn the wages required to pay for most of their expenses month after month, and year after year. Workers therefore need to be able to count on those 40 hours per week each month and year. An erratic work schedule—40 hours one week, 20 hours the next, joblessness next month, back on the job in the following month, with no reliable pattern—is a fundamental obstacle to economic security. Apart from the economic impact, the rollercoaster of erratic work can elevate stress in ways that public health experts have identified as a cause of worsening health.

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[7] Lydia Saad, Gallup, "Americans Say Family of Four Needs Nearly $60K to "Get By," May 17, 2013, http://news.gallup.com/poll/162587/americans-say-family-four-needs-nearly-60k.aspx.

[8] Jonathan Morduch and Rachel Schneider, *The Financial Diaries: How American Families cope in a World of Uncertainty* (Princeton: Princeton University Press, 2017),

In addition, workers need to be able to earn enough from the work they perform to set aside funds to pay for unpredictable, large (if not extraordinary or catastrophic) spikes in spending. Even assuming 40 hours of stable employment, employees' wages and any earning supplement they receive must be high enough to allow them to build up (and not wipe out) the savings they need to survive "rainy days" and build up a retirement cushion.

Third Dimension: Protection Against Extraordinary Costs

The third dimension of economic insecurity involves the big-to-catastrophic, unexpected, economic costs that hit many households from time to time.

The risks of giant health care costs and giant long-term care costs are well understood. Everybody faces them. Almost every American could be wiped out by the cost of a lengthy hospitalization or a few years in a nursing home.

Fortunately, the mechanisms for spreading these risks across society and thus minimizing the cost to any particular individual or family are also well understood: that is, health insurance and long-term care insurance. We know what to do. We are already partway down the road when it comes to health insurance. The task is to complete the nation's construction of a comprehensive national health insurance system, and then get on with the business of designing and implementing a national long-term care insurance system.

It is far less common to think of K12 education as a potential threat to economic security. We have been sending our kids to publicly funded K12 schools for nearly 150 years. We have enjoyed publicly subsidized colleges for nearly as long. These longstanding policies mask how much adults would be obliged to pay if they bore full responsibility for paying the tuition that, for many, would indeed be the catastrophic cost of educating their children.

Few American families can afford spending $10,000 or more per year, for each child, for 12 or 13 or 14 years of K12 education. Even if a relatively small share of American families could absorb the cost of $120,000+ for every child's primary and secondary education, only a smaller share could also bear the additional financial hit of paying in full for their children's college education.

Thus, the third dimension of economic security includes the social sharing of the cost of K12 education and college education. Each wave of parents and their children are in essence "insured" by the taxes paid other adults (many of whom—but not all—had children of their own).

The Principles and Goals of Economic Security Reform

The detailed policy proposals spelled out in *Putting Government In Its Place: The Case For a New Deal 3.0* for tackling economic security necessarily look very different. Each addresses a distinct facet of economic insecurity: unemployment, underemployment, low wages, inadequate income, lack of health insurance, lack of long term care insurance, unaffordability of college, etc. Each therefore calls for a different type of governmental action, resulting in very different rules, funding, and so forth.

At the same time, the various policy changes needed to greatly improve Americans' economic security share common principles and goals. Some of this common ground is obvious, but some is buried. At this point in the account of how to reform the New Deal, it is useful to explain the common foundation and aims that underpin the specific recommendations.

Near-Universality of Scope

The proposed policy changes weave together to provide economic security for almost all Americans. Only two groups are left out. Criminals serving time in prison or jail will get no help from most of the proposals. Nor will adults get money (other than from their own sources) if they *can* work, but *choose* not to work. But for every other adult, the proposals offer greatly improved economic security in one form or another. For children, economic security is linked to that of their adult parents or guardians.

The proposed policy changes are thus universal. They do not provide everyone with identical benefits. Different groups, based primarily on their relationship to work, get different benefits. Rather, the proposed policy changes are universal in the sense that everyone with some sort of connection to work gets the help they need regardless of "means" (i.e., poverty, income, and assets). The unemployed get a guarantee of paid work. (They must decide to work to take advantage of the guarantee. But for all of them, the guarantee is there.) Workers get a guaranteed, often higher-than-at-present, minimum wage. Workers also get an earning supplement, as well as an easier path to collective bargaining and guaranteed paid leave. Adults who cannot work because of a disability get a decent disability benefit. Adults who retire on Social Security, having worked for years, get a decent retirement payment.

There are two things that everyone gets. Every American gets health insurance, typically through either YoungMedicare or regular Medicare. Every child is guaranteed childcare, K12 schooling, and (if qualifying) a college education without being charged a price.

Centrality of Work

A second common ground involves work. The proposed policy changes, in one way or another, are all based upon or linked to employment. They assist Americans who are unemployed or underemployed, but who are seeking paid work (whether full-time or part-time). They help those who are currently engaged in paid work. They help adults who wish to take temporary leave from paid work to deal with an urgent family obligation, but plan before long to return to work. The policy changes proposed also assist those whose disabilities prevent them from working in wage-paying jobs, or who have worked in such jobs for decades and retired to claim their earned Social Security pensions.

Since the overwhelming majority of Americans are thus connected to work (or are their children or spouses), the proposed reform of the U.S. health insurance system can be seen as primarily guaranteeing health insurance to work-connected people. However, the proposed re-design of the health insurance system would provide coverage to all Americans. Everybody deserves health insurance. Whether a “right” or not, it is a necessity.

The same is true of the reforms proposed for our K12 and college education system. Most American children are the daughters or sons of adults who are seeking work, doing work, taking leave from work, disabled from doing work, or retired from work. And there is another connection between education and work. The overwhelming majority of K12 and college students will themselves be workers for much of their lifetime. Getting education right is about making work better. However, the proposed re-design of the K12 and higher education system aims to improve educational opportunities for all American children.

Strong and Consistent Incentives

The proposed policy reforms are also structured, in the main, to create a clear, strong, and consistent incentive to engage in paid work and pursue higher-paying jobs. The design of the Transitional Jobs program; the structure of the new earnings supplement system; the recommended modifications of Unemployment Insurance, disability benefits, and Social Security retirement; and the provision of affordable childcare; all involve incentives to obtain paid employment and seek better-paying jobs in the regular economy.

Intertwined with the creation of more powerful work incentives, the proposed policy reforms also aim to eliminate the marriage penalty that is embedded in current law. Where marriage is concerned, the proposals are either neutral or create a small incentive.

The proposed reform of the U.S. health insurance system involves a different kind of incentives. It relies heavily on the proposition that the perverse incentives that now pervade our health care system are the primary cause of its inflationary cost increases, weak progress in improving quality, and poor overall health outcomes. The proposed health insurance reform for the under-65 population, titled YoungMedicare, presents a fundamental realignment of incentives that will create so powerful a consumer demand for low-cost, high-quality care that America’s health insurance plans and providers will have no alternative but to clean up their act, lower costs, raise quality, and improve overall outcomes.

The proposed reform of K12 education includes incentives for schools and school systems to enroll an economically and racially diverse student body. The proposed reform of higher education, by removing the large financial burden of tuition and debt faced by many students (especially those from lower-and-middle income families), removes a major disincentive to pursue and complete a college education.

Finally, the proposed economic security policy reforms as a whole (including the elimination of means-tested welfare programs)—combined with restructuring the federal individual income tax system—are meant to keep marginal effective tax rates as low as possible for all tax filers regardless of income level. This, too, is aimed at getting the incentives right. Individuals, like firms, should face a clear incentive to strive. One way to shape that incentive is to ensure that individuals and firms get to retain well more than half of their individual income or corporate profit.

Simplicity and Stability

Another shared feature of the proposed policy changes is that each, in its core, is simple. Because much of the explanation for each proposed reform contrasts the *status quo* with the new approach, some of the reforms may seem complex. Some do indeed involve a dose of detail. But on the whole the individual policy policies themselves are fairly simple, in large part because none of them involves means-testing of benefits. The overall structure of the proposed redesign of U.S. economic security policy also inclines towards simplicity because it removes a large number of narrow, "categorical" programs.

Furthermore, the components of the new economic security model will have stability in common. The original New Deal's core of economic security guarantees—Unemployment Insurance, Social Security pensions, a national minimum wage, and collective bargaining—remains with us. The major additions to this set of economic security guarantees over the course of the New Deal *writ large*—SSDI and Medicare—also remain with us. America's experience has been that, once broad-based, universal, economic security guarantees are put in place, they stay in place and change slowly.

Respect for the Market Economy

A final shared feature of the proposed policy changes is that, like the New Deal itself, they all aim to correct for the shortcomings and flaws of the market, especially the labor market.

At the same time, again like the New Deal itself, the proposed economic security reforms not only respect—they are designed to invigorate—the nation's market economy. Overall, the proposed economic security reforms—resulting in new and higher wages, larger earning supplements, higher minimum disability and retirement benefits, excellent health insurance benefits for everyone, and free college tuition—will greatly increase the purchasing power of tens of millions of Americans. Most of that money will flow into the consumption of products and services within the domestic market (although some of it will leak into foreign markets). A portion of the rest will flow into investment in savings. The resulting increase in consumption and savings among the majority of U.S. households will interact with separate proposals to liberate the market from distorting subsidies so as to bolster the American market in general.

It is true that several of the proposals, such as raising the minimum wage, interfere at the margin with outcomes that market would otherwise set. It is equally true that the proposal to finance the YoungMedicare plan for insuring the pre-65 population, by following the Worker's Compensation precedent of requiring employers to pay a payroll-based premium, will involve the imposition new costs.

The premiums to pay for YoungMedicare, however, will cost less than what firms now spend on worse health insurance coverage. Of equal importance, YoungMedicare itself is a market-oriented approach to health insurance reform. It relies entirely on market forces—choice, competition, and incentives—to reduce the wasteful and inefficient practices that permeate the health care sector, tame hyper-inflation in health care costs for both workers and employers, and slow the slow the growth) of health spending as a percent of GDP. The resources freed up will then become available to enrich the rest of the market.

Thus, the proposed economic security reforms viewed as a whole, in concert with the proposal to end politically driven subsidies for specific types of consumption and investment, should be seen as a partner—not an enemy—of an increasingly robust and efficient private market. It is impossible to predict the impact on specific market winners and losers, or on the market's ultimate direction and shape. What is possible to foretell is that the proposed improvement of economic security guarantees will strengthen the ability of the nation's economic and cultural drama to be played out, atop a far more neutral governmental stage, within the private realm.